MANITOBA DEVELOPMENT CORPORATION

Annual Report

March 2002

Manitoba

MANITOBA DEVELOPMENT CORPORATION

Financial Statements
March 31, 2002

Manitoba

102-06789/

MINISTER OF
INDUSTRY, TRADE AND MINES

WINNIPEG, MANITOBA, CANADA
R3C 0V8

His Honour
The Honourable Peter M. Liba, C.M.
Lieutenant Governor of Manitoba
Room 235 Legislative Building
Winnipeg MB R3C 0V8

Your Honour:

I am pleased to present the Annual Report for the Manitoba Development Corporation for the fiscal year ending March 31, 2002.

Respectfully submitted,

MaryAnn Mihychuk, P. Geo.
Minister

Manitoba

Industry, Trade and Mines
Manitoba Development Corporation
555-155 Carlton Street
Phone: 204-945-0141
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Winnipeg Manitoba, CANADA
R3C 3H8

June 26, 2002

Honourable MaryAnn Mihychuk
Minister of Industry, Trade and Mines
Room 358 Legislative Building
Winnipeg MB R3C 0V8

Dear Minister Mihychuk:

It is our pleasure to submit the Annual Report of the Manitoba Development Corporation for the fiscal year ended March 31, 2002, as required by Section 44 of the Development Corporation Act.

Respectfully submitted,

Hugh Eliasson
Chairperson

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
One Lombard Place
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Winnipeg Manitoba
Canada R3B 0X6
Telephone +1 (204) 926 2400
Facsimile +1 (204) 944 1020

June 7, 2002

Auditors' Report

To the Directors of
Manitoba Development Corporation

We have audited the balance sheet of **Manitoba Development Corporation** as at March 31, 2002 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and other members of the worldwide PricewaterhouseCoopers organization.

Manitoba

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June 7, 2002

THE MANITOBA DEVELOPMENT CORPORATION
MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management and have been prepared in conformity with the generally accepted accounting principles. The statements are examined by PricewaterhouseCoopers, Chartered Accountants, whose opinion is included herein.

To fulfil this responsibility, management maintains internal control systems to provide reasonable assurance that the accounts and records accurately reflect all transactions and that appropriate policies and procedures are established and respected.

PricewaterhouseCoopers have free access to the Board of Directors, with and without management present, to discuss the results of their audit and the quality of financial reporting to the Board.

James F. Kilgour, C.A.
General Manager

Jack Dalgliesh
Secretary-Treasurer

Manitoba Development Corporation

Balance Sheet

As at March 31, 2002

	2002 $	2001 $
Assets		
Current assets		
Cash	409,519	72,940
Term deposits - Province of Manitoba	3,073,166	3,777,142
Accounts receivable - other	2,599	67,678
	3,485,284	3,917,760
Assets managed for the Province of Manitoba under Part II		
Cash on hand held in trust	1,077,087	316,700
Loans receivable (note 2)	59,798,379	45,726,653
Equity investments (note 3)	5,378,135	686,000
	66,253,601	46,729,353
	69,738,885	50,647,113
Liabilities and Equity		
Current liabilities		
Accounts payable - Part I	227,554	199,694
Long-term liabilities		
Accrued pension liabilities	-	538,995
Funds provided by the Province of Manitoba under Part II	66,253,601	46,729,353
	66,481,155	47,468,042
Equity		
Share capital		
Authorized and issued 100 shares at $10 per share	1,000	1,000
Retained earnings	3,256,730	3,178,071
	3,257,730	3,179,071
	69,738,885	50,647,113

Approved by the Board of Directors

Director

Director

Manitoba Development Corporation

Statement of Income and Retained Earnings

For the year ended March 31, 2002

	2002 $	2001 $
Income from Part I		
Interest	149,075	249,947
Expenses under Part I		
Administration	55,269	48,673
Pension benefit costs	15,147	41,044
	70,416	89,717
	78,659	160,230
Income from Part II		
Interest - loans receivable	2,099,043	2,136,378
Pro-rata share of partnership earnings (losses)	2,543,043	(2,397,432)
Recovery of Part II expenses from (repayment of Part II income to) the Province of Manitoba		
Increase (decrease) in allowance for loan forgiveness	1,688,111	(2,367,518)
Increase in allowance for doubtful accounts	131,264	3,726,678
Increase (decrease) in provision for decline in value of investments	1,465,006	(64,668)
	7,926,467	1,033,438
Expenses under Part II		
Increase (decrease) in allowance for loan forgiveness	1,688,111	(2,367,518)
Increase in allowance for doubtful accounts	131,264	3,726,678
Increase (decrease) in provision for decline in value of investments	1,465,006	(64,668)
Repayment of Part II interest on loan receivable to the Province of Manitoba	2,099,043	2,136,378
Provision for repayment (recovery) of pro-rata share of partnership earnings (losses)	2,543,043	(2,397,432)
	7,926,467	1,033,438
	-	-
Net income for the year	78,659	160,230
Retained earnings - Beginning of year	3,178,071	3,017,841
Retained earnings - End of year	3,256,730	3,178,071

Manitoba Development Corporation

Statement of Cash Flows

For the year ended March 31, 2002

	2002 $	2001 $
Provided by (used in) Part I activities		
Operating activities		
Net income for the year	78,659	94,286
Changes in operating assets and liabilities		
Accounts receivable		
Province of Manitoba	-	380,744
Other	65,079	3,959
Accounts payable	27,860	(22,837)
Accrued pension liabilities	(538,995)	(8,255)
Net cash flow from Part I activities, carried forward	(367,397)	447,897

Manitoba Development Corporation

Statement of Cash Flows *...continued*

For the year ended March 31, 2002

	2002 $	2001 $
Net cash flow from Part I activities, brought forward	(367,397)	447,897
Provided by (used in) Part II activities		
Loans receivable		
Principal repayments	11,841,060	4,864,960
Loans issued	(27,090,993)	(7,499,324)
Increase in accrued interest receivable	(641,168)	(724,405)
	(15,891,101)	(3,358,769)
Equity investments		
Investments made	(3,647,011)	(526,945)
Redemptions	32,913	12,195
	(3,614,098)	(514,750)
	(19,505,199)	(3,873,519)
Increase (decrease) in cash on hand held in trust	(760,387)	541,624
Increase in accounts receivable	-	450,000
Funds provided by the Province of Manitoba	20,265,586	2,881,895
Net cash flow from Part II activities	-	-
Net increase (decrease) in cash balance during the year	(367,397)	447,897
Cash balance - Beginning of year	3,850,082	3,402,185
Cash balance - End of year	3,482,685	3,850,082
Cash balance consists of the following		
Cash on hand	409,519	72,940
Term deposits - Province of Manitoba	3,073,166	3,777,142
	3,482,685	3,850,082

Manitoba Development Corporation

Notes to Financial Statements

March 31, 2002

1 Significant accounting policies

Nature of operations and economic dependence

The Manitoba Development Corporation (the Corporation) provides loans and guarantees under Part I and Part II of the Development Corporation Act. The activities under Part I and Part II are accounted for separately. Part I activities are undertaken at the initiative of the Corporation, while Part II activities are at the direction of the Province of Manitoba. The Corporation's lending operations under Part I were suspended effective November 15, 1977 except at the direction of the Province of Manitoba.

Equity investments under Part II

The Corporation's equity investments related to share capital investments are recorded at cost. The Corporation's investments in the Vision Capital Fund, the Manitoba Capital Fund, the Manitoba Science and Technology Fund, the Renaissance Capital Fund and the Western Life Sciences Venture Fund LLP are accounted for using the equity method of accounting. These investments were originally recorded at cost and the carrying value is adjusted thereafter to include the Corporation's pro rata share of post acquisition earnings for these investments. Such adjustments are correspondingly reflected in the balance sheet caption "Funds provided by the Province of Manitoba under Part II."

Pension plan

Past employees of the Corporation were not members of the Civil Service of the Province of Manitoba but they contributed to, and are pensionable under the Civil Service Superannuation Fund. In accordance with the provision of the Manitoba Civil Service Superannuation Act, the Corporation contributed 50% of the pension paid to retired employees. The current pension expense was determined on the basis of an actuarial valuation. Payments to pensioners are charged against the liability account.

During the year, the Corporation, on the basis of an actuarial valuation, repaid its accrued pension liabilities by making a lump sum payment to the Civil Service Superannuation Fund.

Operating losses

Losses under Part I and under Part II of the Corporation are the responsibility of the Province and are charged directly against advances received from the Province.

Cash

For the purpose of the statement of cash flows, cash includes cash and term deposits with the Province of Manitoba with maturities of up to three months.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

2 Loans receivable managed for the Province of Manitoba under Part II

	2002 $	2001 $
Business support		
Manitoba Industrial Opportunities Program	61,638,576	69,643,010
Manufacturing Adaptation Program	11,524	58,344
Canada - Manitoba Economic Development Partnership	221,680	221,680
	61,871,780	69,923,034
Other loans receivable		
Canada/Manitoba Tourism Agreement	75,000	81,692
Vision Capital Fund	29,017,659	26,179,844
Crocus Foods (1996) Limited	370,337	370,337
Manitoba Film and Sound	293,106	184,937
Related to sale of Linnet Geomatics International Inc.	247,863	257,024
Elmwood Cemetery	75,000	-
	30,078,965	27,073,834
	91,950,745	96,996,868
Less: Allowance for forgiveness	12,534,084	10,845,973
Allowance for doubtful accounts	19,618,282	40,424,242
	32,152,366	51,270,215
	59,798,379	45,726,653

The Vision Capital Fund loans receivable accrue interest at rates of 10.25% per annum and are secured by a debenture on all assets of the Fund. The interest accumulates in the Fund and is payable along with any outstanding loan advances on December 31, 2002.

3 Equity investments managed for the Province of Manitoba under Part II

	2002 $	2001 $
Share capital investments		
Class M preferred shares of A. E. McKenzie Co. Ltd.	-	2
Common shares of Crocus Foods (1996) Limited	75	75
Class C preferred shares of C.A.R.E. Corp.	267,370	477,170
3863620 Canada Limited	1	-
	267,446	477,247
Less: Allowance for forgiveness of shares	(267,446)	(477,247)
	-	-
Limited Partnership investments		
Vision Capital Fund	768,413	801,326
Manitoba Capital Fund	4,363,200	4,363,200
Manitoba Science and Technology Fund	1,242,706	595,695
Renaissance Capital Fund	2,500,000	-
Western Life Sciences Venture Fund LLP	500,000	-
	9,374,319	5,760,221
Less: Provision for decline in value of investments	6,032,996	4,567,990
Pro-rata share of partnership (earnings) losses	(2,036,812)	506,231
	3,996,184	5,074,221
	5,378,135	686,000

On December 20, 1994, the Province of Manitoba entered into an agreement to sell the assets of A. E. McKenzie Co. Ltd. As part of the sale, the Corporation purchased 102 Class M preferred shares of the purchaser for $102, redeemable prior to December 31, 2001. During the year, the Corporation redeemed the final 2 Class M shares at the request of A. E. McKenzie Co. Ltd. for proceeds of nil. An allowance for forgiveness for the full amount of the shares had previously been recognized.

On November 1, 1996, the Corporation incorporated a new subsidiary company, Crocus Foods (1996) Limited (Crocus), to acquire 100% of the assets of Crocus Foods Ltd., a fresh vegetable processing plant in Southport, Manitoba that was petitioned into bankruptcy by its previous owners. The purpose of this acquisition was to ensure the plant did not close and that jobs were maintained. Total share capital of Crocus consists of 100 common shares with a total paid up capital of $100. On June 1, 1997, the Corporation agreed to transfer up to 75 shares of Crocus to the management of Crocus, subject to certain terms and conditions. Subsequently, the Corporation transferred 25 common shares of Crocus to management under the terms of this agreement. Crocus has been accounted for as a temporary investment instead of on a fully consolidated basis.

The Corporation holds 267,370 (2001 - 477,170) Class C non-voting preferred shares of C.A.R.E. Corp. The preferred shares are cancellable on an annual basis at the rate of $10,000 for every job held at C.A.R.E. Corp., commencing February 1999. During the year, the Corporation cancelled 209,800 of these shares (2001 - 207,100). Consistent with the treatment of other similar share capital investments managed for the Province of Manitoba under Part II, an allowance for forgiveness of shares has been taken to fully provide for the amount of the investment at the time of acquisition.

Prior to January 17, 2002, the Province of Manitoba held a $22,494,241 investment in Faneuil ISG Inc., of which $1,250,000 was a MIOP loan recorded on the books of the Corporation. A provision against the value of the entire investment had been recorded by the Province and by the Corporation.

On January 17, 2002, Faneuil ISG Inc. was purchased by 3863620 Canada Limited. As a result of this transaction, the Province agreed to convert its existing investment into 11,000,000 preference shares of 3863620 Canada Limited, with scheduled redemption dates as follows:

Year 1 - nil	Year 5 - $2,000,000
Year 2 - nil	Year 6 - $2,000,000
Year 3 - nil	Year 7 - $6,400,000*
Year 4 - nil	* (net of $600,000 in legal fees)

The original $1,250,000 MIOP loan has been written off, together with the related provision. The investment in preference shares has been recorded in the books of the Corporation at a nominal value of $1. Any funds received upon redemption of the preference shares will accordingly result in the recognition of an equal amount of income at that time.

4 Contingent liability and commitments

Commitments and undisbursed balances of approved loans under Part II

	2002 $	2001 $
Manitoba Industrial Opportunities Program	29,819,900	13,839,800
Canada - Manitoba Economic Development Partnership	278,320	278,320
Manitoba Science & Technology Fund	1,251,294	1,897,305
Renaissance Fund	500,000	3,000,000
Vision Capital Fund	181,014	2,681,013
Manitoba Capital Fund	636,800	636,800
Western Life Sciences Venture Fund LLP	4,500,000	-
	37,167,328	22,333,238

5 Financial instruments

The carrying amounts of short-term financial assets and liabilities are a reasonable estimate of the fair value because of the short maturity of those instruments.

The financial risk is the risk to the Corporation's Part I earnings that arise from fluctuations in interest rates and the degree of volatility of these rates. Because Part II activities are directed by the Province of Manitoba, any exposure for these financial assets and liabilities to interest rate fluctuations or changes to their fair value would be borne by the Province. Credit risk relating to the realization of assets managed for the Province of Manitoba under Part II is borne by the Province.

6 Comparative figures

Certain comparative figures have been restated to conform with the financial statement presentation adopted in the current year.